Saskatchewan Transportation Company

Second Quarter Report 2007

2007 2nd Quarter Corporate Reporting

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Management Discussion and Analysis

In this MD&A, STC Management will discuss the results of its Second Quarter operations in 2007, in context of both the corresponding quarter in the previous year and, in general terms, in relation to the anticipated financial position of the company over the full year.

The MD&A will also review any emerging corporate issues which arose in the quarter and will have a significant impact on the corporation's fiscal position.

Passenger Service:

In the first half of 2007, STC coaches traveled 1,570,588 miles, serving 278 Saskatchewan communities.

Revenues for passenger operations in the quarter were $1,822,000, up from the $1,773,000 in revenues realized by the company in the second quarter of 2006. The revenues for the year to date were $3,646,000, up from $3,615,000 in the first six months of 2006.

Expenses associated with operating passenger services were $2,291,000, up slightly from the 2006 figure of $2,015,000. Year-to-date passenger operating expenses were $4,479,000 compared to $4,158,000 in the first six months of 2006.

Operating losses of passenger services in the quarter were $469,000 a decrease from the $242,000 in operating loss experienced by passenger services in the second quarter of 2006. The loss for the first six months of the year totals $833,000, compared to $543,000 for the same time period in 2006.

Actual revenues from passenger service are about $46,000 less than projected revenues for the first six months.

Express Service:

Through its network of 195 agents in the province and interconnecting arrangements with other carriers, STC hauls freight throughout the province and connects to destinations across North America.

In the second quarter of 2007, revenues from express operations were $1,789,000, up slightly from the revenues of $1,769,000 realized in the second quarter of 2006. Revenues for the first six months' express operations were $3,214,000, up from the $3,111,000 in revenues for the same period in the previous year.

Express operating expenses during the quarter amounted to $1,318,000 up from the $1,207,000 in expenses for the same period the previous year. Expenses for the first six months amounted to $2,496,000, compared to $2,296,000 in the first two quarters of 2006.

Overall, profits for freight operations in the second quarter amounted to $471,000 compared to a profit of $562,000 for the second quarter of 2007. Year-to-date profit is $718,000, compared to $815,000 for the first six months of 2006.

Revenues for freight operations are slightly below expectations for the quarter. The farming economy has a major impact on this aspect of STC's business, which is very heavily driven by the rural economy. Depending on agricultural conditions for the remainder of the year, express revenues are projected to be slightly above budget.

Maintenance Services:

STC operates a garage in Saskatoon for major bus servicing, and one in Regina for minor bus servicing. In addition, the company uses its facilities to do maintenance work for other bus companies, as well as to store vehicles for other companies.

The expenses for maintenance services in the second quarter of 2007 amounted to $843,000 as compared to $737,000 for the same three-month period in 2006. For the first two quarters, expenses amounted to $1,664,000 compared to $1,497,000 for the first half of 2006.

Financial Services:

Overall, STC's revenues for the second quarter of 2007 amounted to $3,959,000, compared to $3,813,000 for the second quarter of 2006. Cumulatively for the first two quarters, revenues amounted to $7,516,000, compared to $7,275,000 in 2006.

Expenses were $5,621,000, compared to $5,086,000 the previous year. Expenses for the first two quarters of 2007 totaled $10,883,000, up from $10,150,000 for the same period in 2006.

The company's loss before grants for the quarter was $1,662,000, compared to $1,273,000 for the second quarter of 2006. Losses in the first half amounted to $3,367,000, compared to $2,875,000 for the same period the previous year.

STC has been approved for an operating grant of $6.0 million from its holding company, the Crown Investments Corporation of Saskatchewan. Current projections for the year, based on the second quarter, indicate that the company will not likely require the full amount of the grant funding this year. The projected operating loss for the year is approximately $5.5 million, compared to $4.4 million in 2006.

In the second quarter, STC drew down $1,250,000 of the grant funds available from CIC. STC had no outstanding loans or indebtedness in the quarter.

At the end of the quarter, the Government's equity in STC stood at $9,576,000 compared to $10,098,000 at the same time last year.

Other Issues:

STC has seen a slowing of its growth in passenger count, experienced over the past two years. Passengers use of the service in the second quarter of 2007 was down slightly from the first quarter, and 15 below the same quarter for the previous year.

Overall, for the first six months of 2007, the number of passengers on STC buses was down 2204 over the same time period in 2006, a decrease of 1.66 per cent.

If the current trends continue for the remainder of the year, STC anticipates it will cut its loss for the year by more than $581,000 from what was budgeted.

For the third year, STC introduced a youth summer excursion pass during the second quarter of 2007. The pass was introduced in 2005, and was wildly successful. It is anticipated that the pass, which cost the same as in 2006, will be successful again this year, although not reaching the magnitude of 2005.

A work stoppage of approximately two weeks by unionized workers of Greyhound Canada negatively impacted both passenger and express revenues at STC, although the extent is not known.

Work is continuing on the construction of a new passenger and freight terminal and head office facility in Regina. Completion is targeted for spring of 2008.

Saskatchewan Transportation Company

Statement of Financial Position

(unaudited - thousands of dollars)

	As at June 30, 2007	As at December 31, 2006
Assets		
Current		
Cash	$ 85	$ 1,788
Accounts receivable	1,477	1,546
Inventories	347	337
Prepaid expenses	471	162
	2,380	3,833
Property, plant and equipment	26,068	20,501
	$ 28,448	$ 24,334
Liabilities and Province's Equity		
Current		
Accounts payable and accrued liabilities	$ 1,806	$ 3,024
Deferred capital grant	17,066	11,020
Province of Saskatchewan's Equity		
Retained earnings	9,576	10,290
	$ 28,448	$ 24,334

Saskatchewan Transportation Company

Statement of Operations and Retained Earnings
(unaudited - thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Revenue				
Express services	$ 1,789	$ 1,769	$ 3,214	$ 3,111
Passenger services	1,822	1,773	3,646	3,615
Other	269	272	577	548
Loss on disposal of property, plant and equipmen	79	(1)	79	1
	3,959	3,813	7,516	7,275
Expenses				
Operating	4,452	3,959	8,639	7,951
Administration	714	686	1,360	1,310
Amortization	455	441	884	889
	5,621	5,086	10,883	10,150
Loss before the following	(1,662)	(1,273)	(3,367)	(2,875)
Operating Grant	1,250	1,500	2,000	2,500
Capital Grant	339	339	653	661
Net income (loss)	(73)	566	(714)	286
Retained earnings, beginning of perioc	9,649	9,532	10,290	9,812
Retained earnings, end of period	$ 9,576	$ 10,098	$ 9,576	$ 10,098

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Statement of Cash Flows

(unaudited - thousands of dollars)

	Three months ended June 30		Six months ended June 30	
	2007	2006	2007	2006
Operating Activities				
Net income (loss)	$ (73)	$ 566	$ (714)	$ 286
Items not involving cash:				
Amortization	455	441	884	889
Loss on disposal of property, plant and equipmen	(79)	1	(79)	(1)
Recognition of capital grant	(339)	(339)	(653)	(661)
Net change in non-cash working capita	(1,531)	(269)	(1,470)	(598)
Cash provided by (used in) operating activities	(1,567)	400	(2,032)	(85)
Investing Activities				
Additions to property, plant and equipmen	(3,892)	(211)	(6,498)	(389)
Proceeds on disposal of property, plant and equipmen	127	61	127	67
Deferred start up costs	-	(400)	-	(669)
Cash used in investing activities	(3,765)	(550)	(6,371)	(991)
Financing Activities				
Capital grant received	4,700	300	6,700	500
Cash used in financing activities	4,700	300	6,700	500
Increase (Decrease) in cash	(632)	150	(1,703)	(576)
Cash, beginning of period	717	431	1,788	1,157
Cash, end of period	$ 85	$ 581	$ 85	$ 581

1. Basis of Presentation and Significant Accounting Policies

The interim financial statements of the Saskatchewan Transportation Company (the Company) have been prepared by management in accordance with Canadian generally accepted accounting principles. Certain information and disclosures normally required to be included in the notes to annual financial statements have been condensed or omitted. The interim financial statements should be read in conjunction with the financial statements and notes thereto in the Company's annual report for the year ended December 31, 2006.

These financial statements have been prepared following the same accounting principles as the financial statements for the fiscal year ended December 31, 2006.

2. Seasonal Nature of Express Revenues

Historically, STC's express service tends to be seasonal with the first quarter being slightly lower and the fourth quarter being slightly higher than the second and third quarters. This is due to the absence of significant agricultural activity in the first quarter and the increase in holiday shipping in the fourth quarter of the year.